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PUBLIC WORKS AND GOVERNMENT SERVICES CANADA

QUARTERLY FINANCIAL REPORT

For the quarter ended June 30, 2015

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1. Introduction

This Quarterly Financial Report (QFR) should be read in conjunction with the *Main Estimates*, *Supplementary Estimates*, and *Canada's Economic Action Plan* (*Budgets 2015*, *2014*, and *2013*). It has been prepared by management as required under section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by Treasury Board Accounting Standard 1.3. It has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Alignment Architecture

Public Works and Government Services Canada (PWGSC) plays an important role in the daily operations of the Government of Canada. It supports federal departments and agencies in the achievement of their mandated objectives as their central purchasing agent, real property manager, linguistic authority, treasurer, accountant, and pay and pension administrator. The Department's vision is to excel in government operations, and its strategic outcome and mission are to deliver high-quality, central programs and services that ensure sound stewardship on behalf of Canadians and meet the program needs of federal institutions.

The Department, founded in 1841, was instrumental in the building of our nation's canals, roads and bridges, the Houses of Parliament, post offices and federal buildings across the country. Today, PWGSC has evolved into a sophisticated operational arm of government that employs approximately 12,000 permanent employees working in locations across Canada, with its headquarters in the National Capital Area. PWGSC:

- Injects approximately $16 billion annually into the Canadian economy through government procurement for 140 federal departments and agencies;
- Handles over $2.3 trillion in cash flow transactions through the Receiver General function as treasurer;
- Issues more than 13.6 million federal pay and pension payments;
- Provides accommodation to parliamentarians and more than265,105 public servants in 1,641 locations across Canada;
- Manages a Crown-owned property portfolio with a market value of $7.3 billion, including 19 engineering assets such as bridges and dams;
- Provides translation and interpretation services, annually, for more than 1,470 parliamentary sittings and parliamentary committee meetings, and manages translation for more than one million pages of text on behalf of other federal organizations; and
- Processes and images more than 30.4 million pages, annually, for federal government departments and agencies.

Further details on PWGSC's authority, mandate and programs may be found in the *2015-16 Report on Plans and Priorities*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting also known as modified cash accounting, and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying *Statement of Authorities* compares PWGSC's spending authorities granted by Parliament to those used by the Department. Information in the Statement of Authorities is consistent with that in the *Main Estimates*.

The authority of Parliament is required before monies can be spent by the government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation granting statutory spending authority for specific purposes.

PWGSC uses the accrual method of accounting to prepare and present its annual Consolidated Departmental Financial Statements (DFS) that are published in the *Departmental Performance Report*. However, the spending authorities voted by Parliament remain on a modified cash basis of accounting.

The main difference between the QFR and the DFS is the timing of when revenues and expenses are recognized. The QFR reports revenues only when the money is received and expenses only when the money is paid out. The DFS reports revenues when they are earned and expenses when they are incurred. In the latter case, revenues are recorded even if cash has not been received and expenses are incurred even if cash has not yet been paid out.

1.3 PWGSC's Financial Structure

PWGSC provides services to many government departments, agencies and Crown corporations through a variety of funding mechanisms. This includes budgetary authorities that are comprised of voted and statutory authorities, as well as non-budgetary authorities. The voted budgetary authorities include Operating Expenditures, Vote-Netted Revenues and Capital Expenditures, while the statutory authorities are mainly comprised of Revolving Funds, Employee Benefit Plans and Payments in Lieu of Taxes (PILT). The non-budgetary authorities consist primarily of the Seized Property Working Capital Account (see description below).

PWGSC's complex financial structure may result in significant fluctuations in authorities on a quarterly basis which are due to timing differences that are resolved by year end. These are summarized as follows:

- For the most part, PWGSC delivers its services on a cost-recovery basis, generating revenues via Revolving Fund ("the Funds") organizations and programs within the Operating Vote. These organizations and programs are mainly designed to provide services to other government organizations, and are expected to recover the cost of their operations through revenues. However, the costs incurred by the Funds are usually disbursed prior to invoicing the client, which generally occurs upon completion of a project or after services are rendered, and thus revenues may be collected in a subsequent quarter.

- PWGSC manages a variety of real property projects that progress through phases from planning to funding and from procurement to construction. Historical trends have shown that expenditures against these projects are not incurred evenly throughout the year; thus, quarter-to-quarter fluctuations are normal.

- PILT issued by PWGSC are funded through a statutory vote and paid on behalf of other participating federal departments. Payments are subsequently recovered from the participating departments and are recorded as statutory grants in the Public Accounts of Canada. Timing fluctuations can occur between the payments and recoveries.

- PWGSC also manages seized property for the Government of Canada pursuant to the *Seized Property Management Act*. The financial management of this activity is undertaken through the non-budgetary Seized Property Working Capital Account. Charged to this Account are expenditures and advances made to maintain and manage any seized or restrained property. PWGSC recovers its costs from this Account once the property owner loses the right to the property and it is disposed of.

2. Highlights of Fiscal Quarter and Fiscal Year to Date (YTD) Results

2.1 Significant Changes to Authorities

When compared to the same quarter of the previous year, PWGSC's **Authorities Available for Use increased by $277.6 million** (2014-15: $2,664.6 million; 2015-16: $2,942.2 million) as reflected in the *Statement of Authorities* (Table 1, page 9). Major reasons for the increase are outlined below:

Year Over Year Variances in Authorities Available for Use

(in millions of dollars)	Operating	Capital	Budgetary Statutory Authorities	Total Variances
Operation, Maintenance and Capital Projects for Federal Accommodation	(159.0)	332.8		**173.8**
Federal Infrastructure	40.4	29.8		**70.2**
Cape Breton Operations	39.0		0.1	**39.1**
Federal Contaminated Sites Action Plan - Phase II	5.4			**5.4**
Collective Agreements and Employee Benefit Plan Adjustment	2.7		2.1	**4.8**
Build in Canada Innovation Program	2.5			**2.5**
Surplus Federal Real Property for Homelessness Initiative	2.0			**2.0**
Deficit Reduction Action Plan	(28.8)			**(28.8)**
Other	1.2	6.3	1.1	**8.6**
CUMULATIVE VARIANCE IN AUTHORITIES AVAILABLE FOR USE	**(94.6)**	**368.9**	**3.3**	**277.6**

Groupings can change between quarters due to materiality of initiatives.
Amounts may not balance with other public documents due to rounding.

The **net increase of $277.6 million** can be explained by:

Operation, Maintenance and Capital Projects for Federal Accommodation – increase of $173.8 million

PWGSC is mandated to meet the accommodation needs of federal organizations by providing and maintaining a cost effective portfolio of office space and other types of facilities. The variance of $173.8 million is the result of a timing difference. While total annual funding remains consistent with previous years, the funding is now being received earlier in the fiscal year.

Federal Infrastructure – increase of $70.2 million

As announced in the *Budget 2015*, PWGSC will undertake the construction and repair of new and existing federal infrastructure across Canada. The initial amount of $70.2 million includes repairs to various federal buildings and assets such as the Alexandra Bridge, Alaska Highway and Esquimalt Graving Dock.

Cape Breton Operations **– increase of $39.1 million**

As of June 19, 2014, PWGSC is now assuming Enterprise Cape Breton Corporation's real property holdings, as well as their environmental and human resources obligations. An amount of $39.1 million related to these responsibilities was received in 2015-16.

Federal Contaminated Sites Action Plan (FCSAP) - Phase II **– increase of $5.4 million**

Led by the FCSAP Secretariat, housed at Environment Canada, the program is lowering environmental and human health risks, benefiting local communities, and reducing the burden of future environmental liability for all Canadians.

Collective Agreements and Employee Benefit Plan (EBP) Adjustment **– increase of $4.8 million**

In 2015-16, PWGSC received additional funding for the incremental compensation associated with the signed collective agreements ($3.2M). In addition, this adjustment reflects the increase of the EBP rate, as directed by the Treasury Board Secretariat ($1.6M).

Build in Canada Innovation Program (BCIP) **– increase of $2.5 million**

Through the BCIP, PWGSC continues to help companies bridge the pre-commercialization gap for their innovative products and services, support Canadian suppliers to connect with government users, and improve the efficiency and effectiveness of government operations.

Surplus Federal Real Property for Homelessness Initiative **– increase of $2.0 million**

The Government of Canada continues to work in partnership with provinces and territories, communities, private sector and other stakeholders by making surplus federal real properties available for projects to help prevent and reduce homelessness. PWGSC is providing expertise related to real property as well as information and assistance concerning available surplus federal real properties.

Deficit Reduction Action Plan **– decrease of $28.8 million**

In accordance with *Budget 2012*, PWGSC achieved additional savings in 2015-16 through space recapture and space modernization. PWGSC continues to work with departments to recapture surplus space in a manner that ensures best value to Canadians, while also introducing a more modern workplace (Workplace 2.0).

Other **– increase of $8.6 million**

This net increase of $8.6 million is the result of funding variances in miscellaneous projects and activities.

2.2 Significant Changes to Year-to-Date Net Expenditures

As presented in the *Departmental Budgetary Expenditures by Standard Object* (Table 2, page 11), the **Total Net Budgetary Expenditures have decreased by $0.3 million** when compared to the same quarter of the previous year (2014-15: $870.1 million; 2015-16: $869.8 million).

Overall, total spending at the end of the first quarter represents 30% of annual planned expenditures for 2015-16, which compares to the first quarter of 2014-15 at 33%.

The proportion of actual expenditures in comparison to planned expenditures is consistent with the previous year, in each major expenditure category, with the exception of the Information category. The variance in this category is mainly due to information technology infrastructure costs as part of rehabilitation work on Parliamentary Precinct buildings.

Year Over Year Variances in Net Expenditures

(presented by Standard Object)

(in millions of dollars)	2015-16 Year To Date used at quarter end	2014-15 Year To Date used at quarter end	Year Over Year Variance
Information	7.8	1.7	**6.1**
Professional and Special Services	185.6	169.3	**16.3**
Rentals	296.9	340.9	**(44.0)**
Repair and Maintenance	100.3	125.2	**(24.9)**
Transfer Payments	253.9	211.1	**42.8**
Other Subsidies and Payments	85.6	108.5	**(22.9)**
Revenues Netted Against Expenditures	(407.3)	(428.6)	**21.3**
Other Expenditures	347.0	342.0	**5.0**
Total Net Budgetary Expenditures	**869.8**	**870.1**	**(0.3)**

The **net decrease of $0.3 million** is mainly attributable to:

Information **– increase of $6.1 million**

- Information technology infrastructure costs as part of the Long Term Vision and Plan to preserve the Parliament Buildings.

Professional and Special Services **– increase of $16.3 million**

- Construction work on several projects for other government departments including:
  - The High Arctic Research Station for Aboriginal Affairs and Northern Development Canada;
  - The Giant Mine Remediation Project for Aboriginal Affairs and Northern Development Canada;
  - The Rock Bay Remediation project for Transport Canada as part of the Federal Contaminated Sites Action Plan; and
  - Road resurfacing project at the Pacific Rim National Park for Parks Canada.

Rentals **– decrease of $44.0 million**

- Earlier recovery of rental costs from another government department to whom the service is being provided; and
- Timing differences in the payment of leases and other rentals.

Repair and Maintenance **– decrease of $24.9 million**

- Timing differences in the receipt of invoices from a new real property services provider.

Transfer Payments **– increase of $42.8 million**

- Timing differences between when a Payment in Lieu of Taxes (PILT) is issued and when the cost is recovered from other government departments.

Other Subsidies and Payments **– decrease of $22.9 million**

- One-time transition payment in 2014-15 to implement salary payment in arrears by the Government of Canada.
- Offset by costs for a new capital lease at 90 Elgin St, Ottawa, Ontario.

Revenues Netted Against Expenditures **– decrease of $21.3 million**

- Timing difference in the billing cycle between 2014-15 and 2015-16.

Other Expenditures **– increase of $5.0 million**

- The increases in other expenditure categories not listed above are due to increased activity in various projects.

3. Risks and Uncertainties

PWGSC integrates risk management principles into business planning, decision-making and organizational processes to minimize negative impacts and maximize opportunities across our diverse range of services and operations. Risk management in PWGSC is carried out in accordance with the TBS Framework for the Management of Risk, the Management Accountability Framework and the PWGSC Policy on Integrated Risk Management.

The following key risks were identified as having a potential financial impact:

- **PWGSC's dependency on clients' expenditures:** More than half of PWGSC's financial and human resources are directly tied to cost recovered services and activities. In a context of reduced expenditures on the part of client departments and agencies, there is a risk that PWGSC could face unpredictable and reduced business volumes and concomitant reduced resources. In response to this risk PWGSC will adjust to reduced operational demands while maintaining the quality of its services. This includes sustaining rigorous management of revenues, expenditures, forecasting and commitment monitoring and working closely with other departments through the client service network to identify changing requirements and their impacts on the Department.
- **PWGSC's ability to undertake and deliver complex, transformational and interdepartmental major projects and procurements:** There are inherent risks in PWGSC undertaking and delivering complex, transformational and interdepartmental major projects and procurements on time, within the approved budget and according to scope which could ultimately have an impact on the Department's service strategy. In order to address these risks, PWGSC has implemented disciplined investment and project management processes; established service agreements and service standards with clear identification of responsibilities; ensured sound contract management; engaged early with client departments and other stakeholders; and developed the Departmental Integrated Investment Plan (IIP).

4. Significant Changes to Operations, Personnel and Programs

PWGSC did not see any significant changes to its operations, personnel and programs in the first quarter of 2015-16.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that are being implemented in order to refocus government and programs, make it easier for Canadians and businesses to deal with their government, and modernize and reduce the back office functions.

PWGSC is committed to achieving Budget 2012 cumulative and ongoing savings of $177.6 million by 2018-19. Savings of $1.5 million were achieved in 2012-13, $28.1 million in 2013-14 and $85.3 million in 2014-15. For 2015-16, accumulated savings will increase to $114.2 million; savings will increase to $162.0 million in 2016-17 and $163.6 million in 2017-18. These savings support fiscal responsibility and a more effective use of departmental resources. With these changes, and building on progress made in recent years, PWGSC is transforming to better serve its clients through enhanced efficiency and effectiveness, and sound and robust management.

The cumulative savings initiatives for 2015-16, **totalling $114.2 million**, are in the following areas:

1. **Accommodation and Real Property Services – $66.4 million:** Contributing to a more affordable public service by reducing office accommodation costs. This will be achieved by working with departments to recapture real property office space in response to reduced accommodation needs. PWGSC has also developed new real property space standards consistent with leading practices, resulting in a reduction in the total amount of government office space by approximately 10%.

2. **Internal Services – $22.2 million:** Achieving savings by concentrating on core functions, streamlining processes and eliminating redundancies and overlap, thereby ensuring value for taxpayer money. Savings will be achieved by:

    - Reducing internal overhead and information technology (IT) applications;
    - Integrating the financial and real property management systems;
    - Rationalizing redundant print services;
    - Modernizing IT infrastructure to reduce costs; and
    - Winding down of the Investigations and Litigation Office.

3. **Receiver General for Canada – $17.4 million:** Payments made on behalf of the Government of Canada (e.g. employment insurance payments, income tax refunds, Government of Canada pay and pension cheques) which are currently issued as cheques will, over time, be transitioned to direct deposit. As the initiative relies on the active engagement of other federal departments and agencies, PWGSC has developed targeted plans working with federal departments and agencies, as well as financial institutions and associations.

4. **Linguistic Management and Services - $5.3 million:** The Canadian Language Sector Enhancement Program ended in 2012-13.

5. **Specialized Programs and Services – $2.9 million:** Achieved by optimizing interdepartmental coordination on Greening Government Operations, eliminating print publications, and improving efficiency in government operations.

Approved by:

Original signed by
George Da Pont, Deputy Minister
Public Works and Government Services Canada

Gatineau, Canada
August 28, 2015

Original signed by
Julie Charron, Chief Financial Officer, Acting
Public Works and Government Services Canada

Gatineau, Canada
August 28, 2015

Table 1 - STATEMENT OF AUTHORITIES (unaudited)

For the quarter ended June 30, 2015

(In thousands of dollars)	Fiscal year 2015-16			Fiscal year 2014-15		
	Total available for use for the year ending March 31, 2016 1) 2)	Used during the quarter ended June 30, 2015	Year to date used at quarter end	Total available for use for the year ending March 31, 2015 1) 2)	Used during the quarter ended June 30, 2014	Year to date used at quarter end
Vote 1						
Gross Operating Expenditures	3,046,662	681,731	681,731	3,088,755	710,611	710,611
Vote-Netted Revenues	(1,355,207)	(250,560)	(250,560)	(1,302,683)	(264,957)	(264,957)
Net Operating Expenditures	**1,691,455**	**431,171**	**431,171**	**1,786,072**	**445,654**	**445,654**
Vote 5 - Capital Expenditure	**1,128,864**	**92,278**	**92,278**	**759,964**	**86,121**	**86,121**
Revolving Fund Authorities						
Real Property Services Revolving Fund						
Gross Expenditures	1,633,087	184,436	184,436	1,546,128	218,239	218,239
Revenues	(1,628,287)	(106,498)	(106,498)	(1,541,528)	(121,808)	(121,808)
Net Expenditures	4,800	77,938	77,938	4,600	96,431	96,431
Translation Bureau Revolving Fund						
Gross Expenditures	156,714	28,241	28,241	161,570	36,979	36,979
Revenues	(156,742)	(30,576)	(30,576)	(160,230)	(30,310)	(30,310)
Net Expenditures	(28)	(2,335)	(2,335)	1,340	6,669	6,669
Optional Services Revolving Fund						
Gross Expenditures	168,623	7,343	7,343	139,642	7,432	7,432
Revenues	(168,623)	(19,639)	(19,639)	(139,642)	(11,473)	(11,473)
Net Expenditures	-	(12,296)	(12,296)	-	(4,041)	(4,041)
Total of All Revolving Funds						
Gross Expenditures	1,958,424	220,020	220,020	1,847,340	262,650	262,650
Revenues	(1,953,652)	(156,713)	(156,713)	(1,841,400)	(163,591)	(163,591)
Total Revolving Fund Net Expenditures	**4,772**	**63,307**	**63,307**	**5,940**	**99,059**	**99,059**

Table 1 – STATEMENT OF AUTHORITIES - CONTINUED (unaudited)

For the quarter ended June 30, 2015

(In thousands of dollars)	Fiscal year 2015-16			Fiscal year 2014-15		
	Total available for use for the year ending March 31, 2016 1) 2)	Used during the quarter ended June 30, 2015	Year to date used at quarter end	Total available for use for the year ending March 31, 2015 1) 2)	Used during the quarter ended June 30, 2014	Year to date used at quarter end
Other Budgetary Statutory Authorities						
Contributions to employee benefit plans	116,553	29,138	29,138	112,068	28,017	28,017
Minister of PWGSC salary and motor car allowance	82	21	21	80	20	20
Refunds of amounts credited to revenues in previous years	-	-	-	124	124	124
Spending of proceeds from the disposal of surplus Crown assets	437	-	-	352	1	1
Collection agency fees	-	-	-	6	6	6
Payment in lieu of taxes to municipalities and other taxing authorities 2)	-	253,914	253,914	-	211,097	211,097
Total Other Budgetary Statutory Authorities	**117,072**	**283,073**	**283,073**	**112,630**	**239,265**	**239,265**
Total budgetary authorities	**2,942,163**	**869,829**	**869,829**	**2,664,606**	**870,099**	**870,099**
Non-Budgetary Authority						
Seized Property Working Capital Account	-	**(7,421)**	**(7,421)**	-	**(7,213)**	**(7,213)**
TOTAL AUTHORITIES	**2,942,163**	**862,408**	**862,408**	**2,664,606**	**862,886**	**862,886**

Net increase of $277.6 million

Notes:

1) Includes only Authorities available for use and approved by Parliament at quarter-end. Amounts may not balance with other public documents due to rounding

2) Consistent with the presentation in the Main Estimates, "Total available for use for the year", for both 2015-16 and 2014-15, under "Payment in Lieu of Taxes" (PILT), is presented net of planned PILT made to municipalities and the equivalent planned recoveries from other government departments. A description of PILT is provided in Section 1.3 of this report.

Table 2 – DEPARTMENTAL BUDGETARY EXPENDITURES BY STANDARD OBJECT (unaudited)

For the quarter ended June 30, 2015

(in thousands of dollars)	Fiscal year 2015-16			Fiscal year 2014-15		
	Planned expenditures for the year ending March 31, 2016 [1] [2]	Expended during the quarter ended June 30, 2015	Year to date used at quarter end	Planned expenditures for the year ending March 31, 2015 [1] [2]	Expended during the quarter ended June 30, 2014	Year to date used at quarter end
Expenditures						
Personnel	1,143,827	274,818	274,818	1,140,230	272,941	272,941
Transportation and communications	81,135	14,051	14,051	81,428	15,360	15,360
Information	17,749	7,836	7,836	11,107	1,722	1,722
Professional and special services	1,621,851	185,588	185,588	1,493,048	169,252	169,252
Rentals	1,021,990	296,926	296,926	939,707	340,856	340,856
Repair and maintenance	991,932	100,339	100,339	988,157	125,230	125,230
Utilities, materials and supplies	277,764	23,247	23,247	242,307	22,678	22,678
Acquisition of land, buildings and works	456,762	28,062	28,062	317,964	26,056	26,056
Acquisition of machinery and equipment	63,715	6,737	6,737	66,560	4,951	4,951
Transfer payments [2]	-	253,914	253,914	-	211,097	211,097
Other subsidies and payments	574,297	85,584	85,584	528,180	108,504	108,504
Total gross budgetary expenditures	**6,251,022**	**1,277,102**	**1,277,102**	**5,808,688**	**1,298,647**	**1,298,647**
Less revenues netted against expenditures						
Revolving Funds Revenues	(1,953,652)	(156,713)	(156,713)	(1,841,399)	(163,591)	(163,591)
Vote-Netted Revenues	(1,355,207)	(250,560)	(250,560)	(1,302,683)	(264,957)	(264,957)
Total revenues netted against expenditures	**(3,308,859)**	**(407,273)**	**(407,273)**	**(3,144,082)**	**(428,548)**	**(428,548)**
TOTAL NET BUDGETARY EXPENDITURES	**2,942,163**	**869,829**	**869,829**	**2,664,606**	**870,099**	**870,099**

Net decrease of $0.3 million

Notes:

1) Includes only Authorities available for use and approved by Parliament at quarter-end. Amounts may not balance with other public documents due to rounding.

2) Consistent with the presentation in the Main Estimates, "Planned expenditures for the year" for both 2015-16 and 2014-15, under "Transfer Payments", are presented net of planned Payments in Lieu of Taxes (PILT) made to municipalities and the equivalent planned recoveries from other government departments. A description of PILT is provided in Section 1.3 of this report.